

## Message Text

UNCLASSIFIED

PAGE 01 LONDON 15296 01 OF 02 131812Z  
ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 FRB-01 AID-05 CIAE-00  
EB-08 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02  
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05 CEA-01  
L-03 H-02 PA-02 PRS-01 INT-05 FEAE-00 EURE-00  
/132 W

-----079230 131823Z /40

P R 131753Z SEP 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC PRIORITY 8241  
TREASURY DEPT WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL BELFAST  
AMCONSUL EDINBURGH  
USMISSION GENEVA  
USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 15296

USECC ALSO FOR EMBASSY  
USOECN ALSO FOR EMBASSY  
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR  
DONALD E. SYVRUD, OASIA

E.O. 11652:N/A  
TAGS: ECON, UK  
SUBJECT: UNITED KINGDOM BALANCE OF PAYMENTS IN THE  
SECOND QUARTER OF 1977

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PAGE 02 LONDON 15296 01 OF 02 131812Z

1. SUMMARY. IN THE SECOND QUARTER OF 1977, THERE WAS A  
SURPLUS OF 910 MILLION POUNDS ON CURRENT AND CAPITAL  
ACCOUNTS COMBINED, COMPARED WITH ONE OF L,913 MILLION  
POUNDS IN THE FIRST QUARTER. THERE WERE SHARP REVISIONS  
DOWNWARD IN EARLIER FIRST AND SECOND QUARTER ESTIMATES  
OF THE INVISIBLES SURPLUS. END SUMMARY

2. VISIBLE TRADE (SEASONALLY ADJUSTED). THERE WAS A DEFICIT ON VISIBLE TRADE OF 696 MILLION POUNDS IN THE SECOND QUARTER OF 1977, AN IMPROVEMENT OF 266 MILLION POUNDS COMPARED WITH THE FIRST QUARTER (WHICH INCLUDED AN ERRATICALLY HIGH FIGURE FOR JANUARY). THIS IMPROVEMENT OCCURRED DESPITE IMPORTS OF MAJOR NORTH SEA INSTALLATIONS, VALUED AT OVER 300 MILLION POUNDS IN THE SECOND QUARTER, AND A DETERIORATION OF 120 MILLION POUNDS IN THE BALANCE ON THE OFTEN ERRATIC TRADE IN PRECIOUS STONES. IF ALLOWANCE IS MADE FOR THESE VARIOUS FACTORS, THE CENTRAL STATISTICAL OFFICE CONSIDERS UNDERLYING IMPROVEMENT IN THE BALANCE ON VISIBLE TRADE BETWEEN THE FIRST AND SECOND QUARTERS IS PROBABLY WELL ABOVE 266 MILLION POUNDS. INCREASED PRODUCTION OF NORTH SEA OIL WAS THE MAINFACTOR BEHIND A REDUCTION OF 91 MILLION POUNDS IN THE DEFICIT ON TRADE IN OIL, WITH IMPORTS FALLING BETWEEN THE QUARTERS BY 32 MILLION POUNDS TO 1,236 MILLION POUNDS AND EXPORTS INCREASED BY 59 MILLION POUNDS TO 511 MILLION POUNDS.

3. IN VALUE, TOTAL EXPORTS ROSE BETWEEN THE QUARTERS BY 596 MILLION POUNDS WHILE TOTAL IMPORTS INCREASED BY 330 MILLION POUNDS. IN VOLUME, EXPORTS INCREASED BY 5-1/2 PERCENT FOLLOWING VIRTUALLY NO CHANGE IN THE FIRST QUARTER, BUT A BETTER GUIDE TO THE GROWTH IN RECENT QUARTERS IS POSSIBLY GIVEN BY A COMPARISON OF THE FIRST HALF OF UNCLASSIFIED

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PAGE 03 LONDON 15296 01 OF 02 131812Z

1977 WITH THE SECOND HALF OF 1976, WHICH SHOWED AN INCREASE OF 5 PERCENT. THE INCREASE OF 1 PERCENT IN THE VOLUME OF IMPORTS IN THE SECOND QUARTER WAS DUE ENTIRELY TO THE SPECIAL FACTORS REFERRED TO ABOVE. THE UNIT VALUE INDICES FOR BOTH EXPORTS AND IMPORTS ROSE BY 2-1/2 PERCENT. THESE RISES WERE THE SMALLEST SINCE THE END OF 1972, AND ARE LARGELY ATTRIBUTABLE TO THE STABILITY OF STERLING SO FAR THIS YEAR.

4. THE CSO PRESS RELEASE SAYS PROVISIONAL ESTIMATES OF WORLD TRADE SUGGEST THAT, WHEREAS THE VOLUME OF UK EXPORTS IN THE FIRST HALF OF 1977 WAS MARKEDLY ABOVE THE LEVEL IN THE SECOND HALF OF 1976, THE VOLUME OF EXPORTS FROM OTHER INDUSTRIAL COUNTRIES OVER THIS PERIOD ALMOST CERTAINLY DECLINED; BETWEEN THE FIRST HALVES OF 1976 AND 1977 THE INCREASE IN THE VOLUME OF UK EXPORTS WAS PROBABLY ABOUT THE SAME AS THE AVERAGE FOR THE INDUSTRIAL COUNTRIES, AT AROUND 7 PERCENT. SIMILARLY THE RATE OF GROWTH IN THE VOLUME OF UK IMPORTS OVER THAT PERIOD WAS LIKELY TO HAVE BEEN ABOUT THE SAME AS THE INDUSTRIAL COUNTRIES' AVERAGE AT AROUND 10 PERCENT.

5. THE SURPLUS ON INVISIBLES IN THE SECOND QUARTER IS ESTIMATED TO BE 492 MILLION POUNDS; IN CALCULATING THE CURRENT BALANCE IN MONTHLY PRESS NOTICES, IT HAD BEEN ASSUMED, ON THE USUAL BASIS OF PROJECTING PAST FIGURES, THAT THIS SURPLUS WAS RUNNING AT A LEVEL OF 660 MILLION POUNDS. WITH THE FIRST ESTIMATES FOR THE SECOND QUARTER

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PAGE 01 LONDON 15296 02 OF 02 131815Z  
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USMISSION GENEVA  
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UNCLAS SECTION 02 OF 02 LONDON 15296

AND A SIGNIFICANT DOWNWARD REVISION TO THE ESTIMATED SURPLUS IN THE FIRST QUARTER, NOW PUT AT 501 MILLION POUNDS, IT IS EVIDENT THAT THE SURPLUS ON INVISIBLES IN THE FIRST HALF OF THIS YEAR IS RUNNING AT A LEVEL BELOW THE AVERAGE LEVEL ACHIEVED DURING 1976. ALTHOUGH EARNINGS FROM MOST SERVICES, PARTICULARLY TRAVEL, HAVE CONTINUED TO INCREASE STRONGLY, EARNINGS ON THE COMMODITY MARKETS AND UK BANKS'

NET EARNINGS ON THEIR EUROCURRENCY BUSINESS HAVE FALLEN SHARPLY FROM THE 1976 LEVELS. AT THE SAME TIME THE INCREASING PROFITS OF FOREIGN OIL COMPANIES OPERATING IN UNCLASSIFIED

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PAGE 02 LONDON 15296 02 OF 02 131815Z

THE NORTH SEA, INTEREST PAYMENTS ON MONEY BORROWED FROM ABROAD AND HIGHER PAYMENTS TO THE EC HAVE ADDED TO DEBITS.

6. THE CAPITAL ACCOUNT (INCLUDING UNIDENTIFIED TRANSACTIONS) AGAIN SHOWS A SURPLUS, (AS IN THE PREVIOUS TWO QUARTERS) BUT THE SURPLUS OF 1,186 MILLION POUNDS IN THE SECOND QUARTER WAS LESS THAN THE SURPLUS OF 2,506 MILLION POUNDS IN THE FIRST QUARTER; THIS RESULTED PARTLY FROM THE IMPACT IN THE FIRST QUARTER OF THE EXCHANGE CONTROL MEASURES TO RESTRICT FINANCE OF THIRD-COUNTRY TRADE. INVESTMENT OF 926 MILLION POUNDS IN THE UK PUBLIC SECTOR IN THE SECOND QUARTER INCLUDED 436 MILLION POUNDS (750 MILLION DOLLARS) OF THE CREDIT RAISED ABROAD BY THE BRITISH NATIONAL OIL CORPORATION AND THE TAKE-UP OF 395 MILLION POUNDS OF FOREIGN CURRENCY BONDS MAINLY BY OVERSEAS MONETARY AUTHORITIES WHOSE HOLDINGS OF STERLING WERE THEREBY REDUCED. IN TOTAL, EXTERNAL STERLING BALANCES SHOWED LITTLE CHANGE. THOSE OF PRIVATE NON-RESIDENTS INCREASED BY 350 MILLION POUNDS, WHILE OFFICIAL BALANCES DECLINED 392 MILLION POUNDS. THERE APPEARS TO HAVE BEEN A LARGE NET OUTFLOW (789 MILLION POUNDS) RESULTING FROM FOREIGN CURRENCY LENDING AND BORROWING BY UK BANKS IN THE SECOND QUARTER, BUT THE ESTIMATE, DERIVED FROM THE BANKS' RETURNS, MAY HAVE BEEN UNDULY AFFECTED BY THE DIFFICULTIES OF DEALING WITH THE UNUSUALLY LARGE AMOUNTS WHICH REMAINED UNALLOCATED WHEN THE RETURNS WERE AGGREGATED. THIS AND THE LARGE POSITIVE BALANCING ITEM (914 MILLION POUNDS) FOR THE ACCOUNTS AS A WHOLE INDICATE THE HIGHLY PROVISIONAL NATURE OF MANY OF THE ESTIMATES NOW AVAILABLE.

7. THE FOLLOWING TABLE GIVES SUMMARY DETAILS OF THE REVISED FIRST AND SECOND QUARTER ACCOUNTS. THE COMPLETE UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 15296 02 OF 02 131815Z

TEXT AND TABLES HAVE BEEN FORWARDED IN LONDON A-626.

	1976	1977
	1ST QTR	2ND QTR
	(SEASONALLY ADJUSTED)	
CURRENT ACCOUNT	(MILLIONS OF POUNDS)	
VISIBLE BALANCE	-3571	-962 -696

INVISIBLE BALANCE	2166	501	492	
CURRENT BALANCE	-1405	-461	-204	
(NOT SEASONALLY ADJ.)				
CURRENT BALANCE	-1405	-593	-276	
CAPITAL TRANSFERS	-	-	-	
INVESTMENT AND OTHER CAPITAL				
TRANSACTIONS	-2814	2038	272	
BALANCING ITEM	591	468	914	
BALANCE FOR OFFICIAL FINANCING-3628		1913	910	
OFFICIAL FINANCING				
NET TRANSACTIONS WITH:				
IMF	1018	682	216	
OTHER MONETARY AUTHORITIES	-34	-	-	
FOREIGN CURRENCY BORROWING:				
BY HM GOVERNMENT (1)	-	584	-	
BY PUBLIC SECTOR UNDER				
EXCHANGE COVER SCHEME	1791	18	33	
OFFICIAL RESERVES (ADDITIONS				
TO ARE SHOWN WITH A MINUS)	853	-3197	-1159	
(1) DRAWINGS ON EURO-DOLLAR FACILITY FOR HM GOVERNMENT				
TO BORROW 1,500 MILLION DOLLARS.				

BREWSTER

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## Message Attributes

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